

JPMorgan DR Outlook

Global Growth Dynamics Spur DR Market

As investors seek higher returns and diversify their portfolios internationally, the fast-growing emerging market economies have become a destination of choice. Meanwhile, the demand for capital in emerging market economies is seemingly insatiable. With growing demand for capital and increasing investor interest, it is no wonder that the market for depositary receipts ("DRs") has been flourishing and will continue to thrive.

"Capital raised in the form of DRs is on track this year to beat the \$30 billion record set in 2000," says James Keane, EMEA regional head, JPMorgan's Depositary Receipts business. Following the \$6.1 billion DR offering by Russian oil company Rosneft in July, the largest DR issue ever, the year-to-date total for 2006 is already ahead of last year's total.

"And there are still a lot of issuers in the pipeline in various industry sectors, some of which were postponed when global stock markets fell earlier this year," Keane says. "As soon as markets stabilize, they will take advantage of the open window to raise capital."

The market for global depositary receipts, or GDRs, is taking on increasing importance, especially for Russian and Asian companies, Keane says. "The GDR is actually making up the primary trading market for these companies, whereas the home market is the smaller of the two," he says. Most GDRs are traded in London and Luxembourg.

Investment on the Rise

The growing interest of investors in equities of companies from outside their home markets is also reflected in the trading statistics, with the dollar value of DR trading rising more than 25% last year to nearly \$1 trillion. In the first six months of 2006, that level is already at \$860 billion. "There has been an acceleration of growth in the last 12 months in favor of foreign equities," Keane says.

According to the US Federal Reserve, investment in non-US equities by Americans increased by \$302 billion in the first quarter of 2006 (latest figures available) to a record \$3.27 trillion. This represents a record 17.1% portfolio allocation to non-US equities. Additionally, according to 13F filings, a record \$604 billion was invested in DRs as of the first quarter of 2006.

Latin American Markets Heating Up

Meanwhile, Latin America has come back in DR capital-raising activity in the last 18 months, Keane says. In Brazil, in particular, and in Mexico as well, companies must decide whether to have a US listing or a local one. The local markets are becoming more liquid and dozens of new equity offerings have come to market this year, he notes.

In one of the largest issues, Brazilian airline TAM raised more than \$880 million through preferred shares and American Depositary Receipts (ADRs) earlier this year. JPMorgan launched the \$463 million ADR program in conjunction with the airline's IPO and is one of the leading depositary banks in Latin America.

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Strong Growth Expected to Continue

Strong growth is set to continue in commodity-linked markets such as Latin America and Russia. Additionally, the privatization of state-owned enterprises is also creating significant opportunities for investors, alongside the flood of IPOs from private companies. Meanwhile, the use of DRs as an acquisition currency will remain important. As a leading provider of DR services, alongside a global investment bank, JPMorgan strives to maintain relationships with market participants that help issuers build successful DR programs in leading financial centers worldwide.



For more information, please visit JPMorgan's award-winning

Web site adr.com, the central source for information on depositary receipts and international equities.